

## Message Text

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ACTION ARA-06

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C O N F I D E N T I A L LIMA 0146

LIMDIS

FOR: ARA - MR. FISHLOW, S/P - MR. EINAUDI

E.O. 11652: GDS

TAGS: ENRG, EINV, PFOR, PE

SUBJECT: OCCIDENTAL STATUS REPORT

REFS: A) 75 LIMA 10691, B) 75 LIMA 10572, C) 75 LIMA 10412

1. SUMMARY: OCCIDENTAL MANAGER TELLS US THAT OXY'S PACKAGE OF AGREEMENTS WITH GOP WAS NOT DISCUSSED BY COUNCIL OF MINISTERS LAST WEEK AS SCHEDULED. COMPANY FORESEES NO PROBLEMS AND MINES MINISTER HAS INFORMED OXY THAT PACKAGE WILL BE CONSIDERED AT JAN. 13 COUNCIL OF MINISTERS MEETING. COMPANY HAS FIRM ASSURANCE FROM MINES MINISTER THAT AGREEMENTS WILL BE APPROVED BY GOP, AND THUS HAS FOREGONE POSSIBILITY OF TAKING 1975 TAX WRITE-OFF. COMPANY BELIEVES OVERRIDING CONSIDERATION IN GOP DECISION TO REACH AGREEMENT IS NEED FOR COMPANY TO FINANCE DEVELOPMENT OF WELLS, FOR WHICH GOP DOES NOT BELIEVE IT COULD RAISE NECESSARY MONEY.  
END SUMMARY.

2. OXY MANAGER, GERHARD JANSEN, TOLD EMBOFF ON JAN. 5 THAT CONTRARY TO COMPANY EXPECTATIONS, COUNCIL OF MINISTERS DID NOT CONSIDER OXY'S PACKAGE (REF A) AT LAST TUESDAY'S CABINET MEETING. MINES MINISTER LA VERA ATTENDED MEETING AND WAS PREPARED TO REQUEST COUNCIL'S  
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APPROVAL. HOWEVER, THE FOLLOWING DAY (DECEMBER 31)

LA VERA TOLD OXY OFFICIALS THAT SUBJECT HAD NOT BEEN CONSIDERED, BUT THAT COUNCIL'S APPROVAL SHOULD BE FORTHCOMING AT JANUARY 13 CABINET MEETING. LA VERA OFFERED NO EXPLANATION FOR DELAY, BUT REASSURED OXY OFFICIALS THAT GOP PLANS TO APPROVE PACKAGE.

3. JANSEN FURNISHED MORE DETAIL ABOUT AGREEMENTS BETWEEN OXY AND PETROPERU WHICH HAVE BEEN SIGNED BY REPRESENTATIVES OF BOTH ON DEC. 26. AGREEMENTS WILL HAVE NO LEGAL STATUS UNTIL COUNCIL OF MINISTERS PASSES ENABLING DECREE LAW.

A) SPUR-LINE - BASIC TARIFF IS \$21.7 MILLION ANNUALLY, WHICH IS TIED TO CURRENT PRICE OF LIGHT ARABIAN CRUDE OF \$11.51 PER/BBL. IF REFERENCE PRICE RAISED, OXY AGREES TO PAY PETROPERU 13 PERCENT OF THE DIFFERENCE BETWEEN CURRENT PRICE AND NEW HIGHER PRICE. (JANSEN ALSO NOTED THAT OXY HAD LEARNED THAT THERE WAS CONSIDERABLE OPPOSITION TO GOP OFFERING "LOW" \$21.7 MILLION FIGURE, WITH SOME ARGUING FOR PAYMENT ON THE ORDER OF \$50 MILLION ANNUALLY. HOWEVER, COOLER HEADS PREVAILED AND PRESENT FIGURE WHICH HAD BEEN PETROPERU'S INITIAL OFFER TO OXY WAS ACCEPTED BY GOP.)

B) BARGING PROJECT - OXY HAS IN RECENT MONTHS BEEN PRODUCING 9,100 B/D AND DOES EXPECT TO EXPAND PRODUCTION FOR BRAZILIAN OPERATIONS TO 20,000 B/D IN THE NEAR FUTURE. BARGING SHOULD CEASE ONCE SPUR-LINE IS COMPLETED.

C) TOPPING PLANT - BOTH OXY AND PETROPERU WILL SHARE PRODUCTS ON 50-50 BASIS.

4. JANSEN ALSO SAID THERE IS AN ADDITIONAL FOURTH AGREEMENT INVOLVING MINISTRY OF FINANCE AND ECONOMY (NO ONE HAD PREVIOUSLY ALLUDED TO THIS AGREEMENT IN CONVERSATIONS WITH US). THE TAX DEPARTMENT OF THE FINANCE MINISTRY HAD RULED RECENTLY THAT UNDER OXY'S OPERATING CONTRACT, THE COMPANY WAS NOT ENTITLED TO REPATRIATE CERTAIN DOLLAR COSTS, WHILE THE COMPANY MAINTAINED THAT THE CONTRACT AUTHORIZES IT TO DO SO. OXY OFFICIALS APPEALED TO CONFIDENTIAL

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FINANCE MINISTER BARUA, STATING THAT UNLESS TAX DEPARTMENT RULING WAS OVERTURNED, THE COMPANY COULD NOT DO FURTHER BUSINESS IN PERU; BARUA AGREED AND LA VERA SO INFORMED OXY DURING THE MEETING LAST WEEK. (THIS FAVORABLE DECISION, VIA A SUPREME DECREE, WAS PUBLISHED IN OFFICIAL GAZETTE "EL PERUANO" ON JAN. 6.)

5. JANSEN SAID THAT IT IS PREMATURE TO CONSIDER TERMS

AND CONDITIONS OF POTENTIAL LENDING FROM EXIMBANK OR OTHER EXPORT CREDIT INSTITUTIONS UNTIL PACKAGE IS OFFICIALLY APPROVED. HE SPECULATED THAT ONCE APPROVAL IS FORTHCOMING, THEN GOP MIGHT EITHER APPROACH USG DIRECTLY OR POSSIBLY ASK OXY FOR ASSISTANCE IN "OPENING DOORS," PARTICULARLY SINCE OXY ITSELF MAY BE INTERESTED IN SMALL EXIMBANK CREDITS FOR GATHERING LINES, ETC. (REF A).

6. COMMENT: JANSEN SAID THAT ON BASIS OF NEGOTIATIONS WITH PETROPERU AND MINISTRY OF ENERGY AND MINES, OCCIDENTAL MANAGEMENT CONCLUDED THAT GOP WANTS A CONTINUING WORKING RELATIONSHIP WITH OCCIDENTAL AND THAT A FINAL AGREEMENT WILL BE FORTHCOMING. THUS, OXY HAS FOREGONE ITS POTENTIAL IRS TAX WRITE-OFF AND CONFIDENTLY EXPECTS GOP APPROVAL SOON. JANSEN SAID THAT A RANKING PERUVIAN OFFICIAL TOLD HIM THAT, IN ESSENCE, GOP WAS FINANCIALLY STRAPPED AND NOT IN A POSITION TO RAISE MONEY FOR THE DEVELOPMENT OF THE OXY WELLS AND, THEREFORE, AGREED TO KEEP COMPANY IN THE PICTURE, DESPITE PRESSURES FROM SOME PUSHING FOR GOP TO TAKE OVER OXY'S CONTRACT. CERTAINLY, AUTHORIZATION FOR OXY'S DOLLAR COST REPATRIATION IS POSITIVE SIGN THAT OTHER AGREEMENTS WILL ALSO BE APPROVED. DEAN

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## Message Attributes

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